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World War II and the Rebirth and Death of Canada's Merchant Marine

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Résumé de l'article

Déjà, à deux reprises avant la Deuxième Guerre mondiale, la marine marchande du Canada s'était effondrée devant le conflit entre les conceptions de l'empire et celles des intérêts commerciaux. En effet, une fois passée l'ère de la voile, le pays qui avait abrité une marine marchande prospère avait connu un déclin comme nation maritime. La plus grande partie de la flotte marchande qui a survécu a navigué sous pavillon britannique, tout en employant équipages et officiers britanniques. Au cours de la Deuxième Guerre mondiale, le Canada a reconstruit sa marine marchande. Au terme de la guerre, État, travailleurs et entrepreneurs ont tous appuyé la formation d'une politique maritime qui préserverait la capacité de transport développée depuis 1939.

Mais ces efforts pour maintenir la flotte n'ont pas fait le poids devant l'impact destructeur d'une politique contradictoire du commerce national, de l'absence d'un marché international d'expédition où régnerait le laissez-faire, de la montée des tensions relatives à la Guerre froide et du problème singulier des échanges avec le bloc sterling. La chronologie et la nature de cet écroulement furent typiques du Canada. Les barrières à la convertibilité de la monnaie d'échange, les restrictions de cargaison et les coûts élevés du travail et de la production se sont avérés des obstacles formidables. Vis-à-vis d'eux, les représentants de l'État canadien détenaient peu de pouvoir. La combinaison de ces éléments aide mieux que la thèse d'une main invisible à expliquer pourquoi les propriétaires de vaisseaux canadiens ont ouvert la voie de l'abandon du drapeau national et pourquoi l'État les y a aidés. Ainsi, la mort de la marine marchande ne devrait plus être attribuée uniquement au militantisme syndical et au coût de la main-d'oeuvre.

World War II and the Rebirth and Death of Canada's Merchant Marine

MICHAEL A. HENNESSY

Résumé

Twice before the Second World War the Canadian merchant marine had collapsed in the face of competing conceptions of empire and commercial interest. Though once home to a thriving merchant fleet, the passing of the age of sail marked Canada's decline as a maritime nation. Most of the surviving merchant fleet sailed under British registry, employing British crews and officers. During the Second World War, Canada rebuilt its merchant marine. As the war drew to a close, the state, labour and enterprise supported the framing of a Canadian maritime policy to preserve the merchant shipping capacity developed during the war.

The fleet's ambiguous origins, conflicting national trade policy, the absence of a laissez-faire international shipping market, the rise of cold-war tensions and the very peculiar problems of trade to the sterling bloc savaged post-war efforts to maintain the fleet. The timing and nature of the collapse were particularly Canadian. Barriers to currency convertibility, carriage restrictions, and high labour and production costs, proved formidable obstacles which representatives of the Canadian state were very largely powerless to overcome. In combination, these elements, rather than some invisible hand, explain why Canadian ship owners led the way in abandoning their national flag and why the state helped them. Sole attribution for the death of the merchant marine should no longer fall to unfavourable labour costs or union activism.

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Déjà, à deux reprises avant la Deuxième Guerre mondiale, la marine marchande du Canada s'était effondrée devant le conflit entre les conceptions de l'empire et celles des intérêts commerciaux. En effet, une fois passée l'ère de la voile, le pays qui avait abrité une marine marchande prospère avait connu un déclin comme nation maritime. La plus grande partie de la flotte marchande qui a survécu a navigué sous pavillon britannique, tout en employant équipages et officiers britanniques. Au cours de la Deuxième Guerre mondiale, le Canada a reconstruit sa marine marchande. Au terme de la guerre, État, travailleurs et entrepreneurs ont tous appuyé la formation d'une politique maritime qui préserverait la capacité de transport développée depuis 1939.

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The general disappearance of the non-specialized merchant marines of the leading economic and industrial powers following the Second World War does not serve as an appropriate explanation for the collapse of the Canadian oceanic merchant marine. On average, most the nations of the Group of Seven (G-7) except Canada and the United States, experienced a doubling in merchant tonnage between 1948 and 1959. Whereas the American merchant marine suffered a minor reduction in total tonnage, Canada experienced an 85 percent decrease.[1] While the merchant fleets of other nations enjoyed what Ronald Hope called the "halcyon years," the Canadian merchant marine collapsed.[2] The markedly unstable labour conditions of the Canadian merchant fleet contributed to this collapse and have had their share of chroniclers.[3] Labour issues do not gain detailed examination here, except to note that Canadian labour costs and union activism are too routinely trotted out as the sole explanation for the fate of the Canadian merchant marine.[4] Both clearly played a role, but neither separately nor combined do they account for the particular pattern of *right-sizing* which afflicted the Canadian merchant fleet – at least that is a central contention of this paper. It will be demonstrated that the

1. Taking 1948 as the base year, the respective national growth figures were: Germany 9.5, Japan 5.3, Italy 2.33 UK .12, France .57, and USA remained stationary. Figures based on "The British Shipping Industry," *PEP Planning*, (London, 16 November 1959), 194; annual reports of the Canadian Maritime Commission, various years. US and Canadian figures exclude Great Lakes fleets, and the US Reserve Fleet. *Committee of Inquiry Into Shipping*. Viscount Rochdale, chairman (London, 1970).
2. Ronald Hope, *A New History of British Shipping* (London, 1990) chapter 22.
3. Stuart Jamieson, *Times of Trouble: Labour Unrest and Industrial Conflict in Canada, 1900-1966*, Privy Council Task Force on Labour Relations, report #22 (Ottawa, 1968). On the Canadian merchant marine's labour troubles, see Robert Kaplan, *Everything That Floats: Pat Sullivan, Hal Banks, and the Seamen's Unions of Canada* (Toronto, 1987); Craig Heron, "Communists, Gangsters, and Canadian Sailors," *Labour/Le Travail*, XXIV (Fall 1989), 231-7; Jim Green, *Against the Tide: The Story of the Canadian Seamen's Union* (Toronto 1986). T.G. Norris, *Report of the Industrial Inquiry Commission on the Disruption of Shipping* (Ottawa, 1963).
4. Department of Transport, *Task Force on Deep-Sea Shipping* (Ottawa, 1985); A.W. Currie, *Canadian Transportation Economics* (Toronto, 1967); M.G. Angus, "Post War History and Present Pattern of the Canadian Deep Sea Shipping Industry" (unpublished paper delivered to the Technical Section, annual meeting, Canadian Shipbuilders and Ship Repair Association, Montreal 1964), and Gerald Morgan, "Park Steamships: An Outline History" (Deepsea Shipping History Conference, Memorial University, Newfoundland, 1983).

post-war fate of the Canadian merchant fleet stemmed directly from its peculiar origins during the Second World War, Canada's wider trade policy, the failure of international economic recovery during the initial post-war years, and the rising tensions of the cold war.

Maritime Policy in the Canadian Dominion

For reasons that remain under debate, the Canadian and American maritime industries declined precipitously through the late nineteenth century.[5] By the end of the century the United States, in contrast to Canada, moved dramatically to foster its maritime industries. America's naval expansion parallelled a series of measures to protect domestic shipyards and promote the American merchant marine.[6] In contrast, before the First World War, Canada's once thriving sailing fleet disappeared as an oceanic force. The war brought the creation of a new merchant fleet, soon christened the Canadian Government Merchant Marine (CGMM), but it, too, collapsed in the peace. Long a source of parliamentary debate, the war-built ships of the CGMM were not replaced by modern tonnage. But scrapping the fleet proved an equally difficult policy for respective administrations.[7]

In 1936, a newly elected Minister of Transport, C.D. Howe, confronted this problem. Howe demonstrated all the hallmarks later associated with his handling of wartime mobilization and reconversion. Howe formed the Department of Transport, responsible for road, rail, air and sea transport. Failed programmes, such as the Canadian Government Merchant Marine, were jettisoned. Distrustful of direct government control of commercial enterprise, Howe sponsored the plan to sell the ships of the CGMM to a newly formed private venture led by shipping firms in Australia and New Zealand.[8]

For the most part, British ships carried Canadian produce, an arrangement protected in constitutional law. The Statute of Westminster, proclaimed 31 December 1931, granted Canada full sovereign status as an independent nation-state. Defence and merchant shipping matters proved exceptions. In preparing the basis for the Statute of West-

5. Eric Sager and Gerald Panting, *Maritime Capital* (Montreal and Kingston, 1990).
6. A.T. Mahan, *The Influence of Seapower Upon History 1660-1783* (London, 1889). For an unadulterated picture of the mercantile and power political implications of Mahan, see William Reitzel, "Mahan on Use of the Sea," in B.M Simpson, *War Strategy and Maritime Power* (New York, 1977), 95-107.
7. University of New Brunswick, Rt. Hon. R.B. Bennett Papers, box 704, R.J. Manion, Minister of Railways to Cabinet, 31 July 1931, and confidential letter from H.H. Stevens, Minister of Trade and Commerce to R.B. Bennett, 12 February 1932 recommending disbanding the enterprise.
8. NA Record Group (RG) 46 (Department of Transport), vol.1269 file 31141, "Australasian Service"; RG 46 vol.1271 file: "Pacific Services," clipping, "Subsidies for Empire Ships, New Plan to Fight USA Rival in Pacific," *Sydney Daily Telegraph* (16 April 1936); see also *Imperial Shipping Committee. 35th Report*, "The Possibilities of British Passenger and Cargo Service Between Western Canada and Australia-New Zealand" (London, 1936); RG 46, vol. 1269, file 21105, "Canada and New Zealand On the Pacific."

minster, the British government gained acceptance among the Commonwealth nations for the British Commonwealth Merchant Shipping Agreement.[9] Its signatories left their coastal trades, i.e., purely domestic services, open to ships registered within the Empire. Thus, it was arguable that, as a member of the Empire, Canada did not require its own flagged merchant fleet. It has not gone unremarked that ships of British registry, rather than Canadian, dominated Canada's intercoastal trade, that between the west and east coasts, and much of the coastal trade. As one historian has noted, "British shipping was competitive with Canadian shipping, even in Canadian markets, because of the high cost of Canadian labour."[10] Labour costs were not the only factor. British access to the Canadian market was privileged. British tax and maritime regulations also were more advantageous; nevertheless, in undertaking not to close the coastal trade to Empire ships, the Canadian government surrendered one of the primary instruments employed by nations intent on fostering their merchant marine and shipbuilding industries.

Canadian reliance on the shipping services of other nations did not reflect a lack of international trade. Canada ranked either fourth or fifth in the volume of world trade. On average, between 1925 and 1940, fifty percent of the value of Canadian imports and exports were dependent on seaborne trade.[11] International trade was essential to Canada's economic and industrial survival.[12] In the year ending 31 March 1939, 116,987 vessels, accounting for some 90,161,573 dwt entered and left Canadian ports. But few Canadian-registered ships participated in the carriage of Canadian cargoes to the world.

At the outbreak of war, Canadian-flagged ocean tonnage over 2000 dwt numbered only some 30 vessels. Ten of these vessels were owned and operated by Canadian National Steamship lines, engaged primarily in the Canada-British West Indies trade; nine oil tankers were owned and operated by Imperial Oil Limited; three oil and coal carriers were operated by Dominon Steel; and two vessels were Canadian Pacific Railway trans-Pacific liners operating on the antipodean run. Employing fewer than 500 Canadian seamen, those ships engaged in West Indies, South Pacific and tramp services. Unless help were received from allies, these vessels would be the only Canadian registered deep-sea operators available for mobilization to meet Canada's strategic shipping requirements.

9. Bennett Papers, Box 704, "Report of Conference on the Operation of Dominion Legislation and Merchant Shipping Legislation, 1929," and "British Commonwealth Merchant Shipping Agreement," 17 December 1931.

10. N. Tracy, *Canadian Shipbuilding and Shipping* (Halifax, 1985), 8.

11. NA RG 24 (Department of Defence), vol. 11463, file DOR-Reports, "RCN Operational Research Report, No.26, "An Estimation of Canada's Post War Naval Expenditure," 15 September 1944.

12. *Report of the Royal Commission on Dominion Provincial Relations, Book I, Canada: 1867-1939* (Ottawa, 1940), 179. I am indebted to Robert Bothwell's "Who's Paying for Anything these days? War Production in Canada 1939-1945," in F. Dreizinger, ed., *Mobilization for Total War* (Waterloo, 1981), 59.

To manage those requirements, Cabinet established in December 1939 the Canadian Shipping Board (CSB). The CSB co-ordinated Canadian strategic requirements with similar bodies in the United Kingdom and eventually the United States. Both powers helped ensure Canadian essential requirements were met, but did not always do so to Canadian satisfaction. During the initial years of the war, the CSB could meet other Canadian needs by hiring neutral tonnage. However, by December 1940, less than eight percent of the world's ocean tonnage lay available for charter to belligerent waters.[13]

The Canadian Shipping Board encountered progressive difficulty in getting tonnage assigned by the allied boards for anything more than absolutely essential needs. By late 1942, over 50 percent of the initial Canadian merchant tonnage had been lost.[14] From 49 vessels available in mid-1940, the Canadian ocean fleet had been reduced to 25 by early 1943.[15] In light of these difficulties, the Canadian Shipping Board recommended to Cabinet that Canada undertake to build merchant ships for export to our allies, and to furnish vessels for Canadian control and supply of domestic requirements. Facing this problem, Howe moved to accept the recommendations of the CSB to build merchant ships for Canada's own needs.

Initially, ten vessels were laid down for Canada's needs, but the numbers quickly increased. Nearly 400 large merchant ships would be completed in Canadian shipyards during the war. When first undertaken, all the vessels were for foreign sale or loan through Mutual Aid, yet within the year, Howe and the Cabinet endorsed a major programme of building new vessels for Canadian control and operation through the soon-to-be formed Park Steamship Company. Formed by Order-in-Council, 8 April 1942, Park Steamships Company Limited became responsible for taking over Canada's new cargo ships. The Company operated by assigning these new vessels to private operating companies, which became responsible for the economy of the vessels and the remittance of profits in excess of the operating fee. Park Steamships eventually controlled over 115 merchant vessels, manned by some 12,000 Canadian merchant mariners.[16] Moreover, Canada retained ownership of many vessels loaned to Britain. Through these steps, Canada's merchant fleet rose from virtual extinction to become the third largest in the world by 1945.[17]

The collapse of the U-boat offensive in early 1943 lessened the demand on Canadian resources. With the turn of the tide, the future merchant building programme was

13. *Harbour and Shipping* (December 1940) :23:12: 365.
14. These losses accounted for thirteen Canadian-owned vessels, four newly purchased and eight prize or requisitioned vessels.
15. NA RG 46 vol. 1271 file, Post War Planning "Canada's Merchant Fleet," March 1943.
16. *Harbour and Shipping* (September 1946): 439. RG 46 vol.1272, file "Shipping – Post War Policy," text of speech by Honourable James MacKinnon, Minister of Trade and Commerce, "Canadian Shipping and the War," 9 January 1945.
17. For details of construction, see the unpublished history of shipbuilding found in NA RG 28 (Munitions and Supply), vol.7, file 21, "Wartime Merchant Shipping."

reduced by 50 percent.[18] Even before the back of the U-boat offensive was broken, Canada had moved to reduce the scale of the merchant shipbuilding programme because of problems associated with finding crewmen for Canadian-flagged vessels. The Prime Minister insisted that manning of the merchant fleet occur without the use of conscription. At the current rate of construction, more tonnage was being produced than could be manned. Dilution of crews, low morale and recruiting problems resulted in, as the Prime Minister was later informed, Canadian vessels relying on a "rather poor type of man" regarded as "evaders of military service."[19] Notwithstanding the casual slander of high circles, manning problems greatly influenced the final shape of the merchant fleet.

Reconstruction and Maritime Policy

As the war moved to a close, Canadian labour, shipping, and shipbuilding interests intensified their calls for Canada to pursue a protective maritime policy similar to that followed in the United States.[20] Shipping shortages and the problems and expense of mobilizing shipbuilding for war convinced many within government that continued support for both civil maritime industries was in the national interest. The Departments of Transport, Finance, Trade and Commerce, and the Navy all contributed separate studies, generally endorsing some form of protection.[21] Such a Canadian maritime policy, however, faced many practical and ideological obstacles. The problems of reconversion to conditions of commercial demand figured large in these discussions.

From the inception of the merchant shipping programme, internal government discussions addressed the post-war prospects for vessels constructed in wartime. While the Director of Shipbuilding argued that smaller merchant ships would be more useful to Canadian peacetime needs, the Navy had recommended building larger vessels. The focus of wartime merchant shipbuilding was directed at the 10,000 dwt class of ships ideally suited for strategic sea-lift, but very likely to face a highly competitive and glutted market when peace was restored. Through 1943, attention turned to the ultimate fate

18. NA RG 2, 7c (Privy Council), Cabinet War Committee (hereafter CWC), minutes volume XIII, 28 July 1943, and 8 September 1943, and volume XIV CWC Doc. 675-1 November 1943, "Canada Production Problems," Economic and Statistics Branch, Department of Munitions and Supply, 1 November 1943; on cancelling 52 new naval vessels, see RG 28a vol. 129 f.3-C-29 Naval Message, CNS to C-in-C CNA and COPC, 8-12-1943. On how these measures aimed to overcome technical and manpower problems, see RG 28a (Department of Reconstruction), vol. 56, file 1-1-102, D.B. Carswell to Directors General, Munitions and Supply, 17 January 1944. NA Hon. C.D. Howe Papers, vol. 42, file S-9-25(2), Howe to D.W. Ambridge, 24 August 1943.
19. NA RG 2, 7c, CWC minutes, 21 December 1943, on the slander of the crews, see NA Hon. W. L. Makenzie King papers, vol. 331, f. 3534, memo to W.L.M. King, March 1945.
20. NA Howe Papers vol. 85, file Merchant Marine (3), submission of Pat Sullivan, President of the Canadian Seamen's Union, Pat Sullivan, to the Honourable C.D. Howe, Minister of Reconstruction, 3 May 1944; and, NA RG 46 vol. 1270, "Brief on Shipbuilding," by the Canadian Shipbuilding and Ship Repair Association, 11 October 1944.
21. See NA RG 2-7c vol. 16, Cabinet War Committee discussion, 5 October 1944.

of the war-built merchant ships, seamen and shipyards. Cabinet turned to the issue when, on 15 July 1943, the Canadian Shipping Board (CSB) reached beyond its mandate to request guidance on long term shipping policy so that they could better plan further wartime requirements. The CSB pointed out that should the government desire to maintain a merchant marine in the post-war period, it should act sooner, rather than later, because of the difficulty of raising merchant shipping crews.[22] In particular, the CSB desired Cabinet's direction concerning "the extent to which new ships being built in Canada for war purposes should be utilized to build up a Canadian merchant marine both for war and peace requirements." To that end, the CSB recommended the prompt appointment of a single co-ordinating body, similar to the American Maritime Commission.[23]

The question put to Cabinet by the CSB, however, was prompted by a more immediate concern. The government's long-term intentions would influence how the pressing shortage of merchant seamen would be overcome. The Canadian shipbuilding programme remained scheduled to provide some 150-250,000 tons of additional capacity per year through 1945. Manning this new tonnage, the Canadian Shipping Board pointed out, meant facing shortages of skilled navigation officers, engineers, and experienced seamen. Manning the projected Canadian output of new tonnage would require some 1,800 officers and engineers, and about 7,000 seamen to be recruited into the Canadian merchant marine each year. These numbers were far in excess of those being attracted to the service in 1943.[24]

Before Cabinet gave these questions much consideration, they were referred to the Cabinet's Economic Advisory Committee (EAC), under the Chairmanship of the Deputy Minister of Finance, Dr. W.C. Clark. The EAC's report presented to Cabinet in August 1943 gave only tentative answers, and recommended further consideration be given to long-term policy. Clark's report noted that for the initial post-war period, at least, retention of vessels under Canadian control promised an "adequate bargaining position in obtaining shipping space and in arranging for as rapid a resumption of normal export trade as possible." More tentatively, the EAC's report concluded it was probably better to have a larger post-war merchant marine than Canada possessed at the beginning of hostilities. Some potential advantages were easily identified. A larger merchant navy promised enhanced international prestige, could service vital Canadian trade routes, and would serve as an outlet for demobilized naval personnel.[25] Nevertheless, the shipbuilding programme then under way would yield a post-war merchant fleet considered "entirely too large and unbalanced" to compete internationally without either extensive government subsidies, or the acceptance of wages and working conditions far below

22. NA RG 2,7c Minutes, CWC, Cab. doc. 606, "Report of the Advisory Committee on Economic Policy on the Recommendations of the Canadian Shipping Board (July 15, 1943)," 3 September 1943.
22. NA RG 2, 7c Minutes, CWC, Cab.doc. 606.
24. NA RG 2, 7c Minutes CWC, 7-8 September 1943, and Cab. doc. 606, "Report of the Advisory Committee on Economic Policy on the Recommendations of the Canadian Shipping Board (July 15, 1943)," 3 September 1943.
25. NA RG 2 7c minutes of CWC, 7-8 September 1943.

Canadian standards. Further, the EAC reported, many of the war-built ships promised only limited commercial viability.[26]

C.D. Howe reviewed the question before recommendations went to Cabinet. Howe's response came at the Cabinet meeting of 27 September. He made plain his concern that the experience of the pre-war Canadian Government Merchant Marine – the organization he disbanded – not be repeated. Nevertheless, he supported the fullest examination of policy options. Howe informed his colleagues that he was already eliminating some of the problems identified by the CSB. The manning problem would be eased, he informed them, by planned reductions to merchant building. As for long-term policy, Howe was prepared, following consultations with the Deputy Minister of Transport, to strike a special sub-committee of Cabinet to examine the whole question of Canada's post-war merchant shipping and shipbuilding industries.[27]

A new body, the Interdepartmental Committee on Merchant Ship Policy (ICMSP) undertook the examination of Canada's maritime policy.[28] The ICMSP would issue no final report. Instead, a series of recommendations were put forward to Cabinet at various times, on separate aspects of post-war shipping and shipbuilding policy.

Following Cabinet's review of the ICMSP's interim report, C.D.Howe announced the government would support a post-war merchant marine. While welcomed by many of the labour and industrial lobbies, the announcement predated any firm policy decision by the Cabinet on what form that support would take. Many issues remained unresolved.

In preparation for the interim and final reports of the ICMSP, numerous supporting studies were prepared, many of which Cabinet addressed piecemeal. The most important studies included a general survey of Canadian seaborne trade, with particular attention to cargoes and routes; a review of pre-war merchant shipping policy; and a review of the government apparatus that administered elements of maritime policy.[29] None of these studies provided unambiguous answers. Indeed, consideration of post-war policy was befuddled by marked ambiguity. For shipping, the greatest sources for such confusion were the conflicting interests of Canada as a trading nation. In particular, support for Canadian shipping promised to conflict with the greater interest of promoting international trade.

While government agents readily supported the call for some form of subsidized merchant marine, the ICMSP's survey found a cool reception among private firms: few

26. Throughout, the Canadian documents used the term "merchant marine" as opposed to the British term "merchant navy." See NA RG 2, 7c Minutes CWC, "Report of the Advisory Committee on Economic Policy on the Recommendations of the Canadian Shipping Board (July 15, 1943)," 3 September 1943.
27. NA RG 2, 7c, CWC, minutes, 7-8 September 1943; RG 2, 18 vol. 25 file M-15.
28. NA RG 2, 18 vol. 25 file M-15. See Cab. doc. 606 and Cab. doc.659, July 1943.
29. NA RG 19 (Department of Finance) vol. 3998 file S-12-2-6 contains all the various reports and summaries of surveys.

desired to subsidize a Canadian merchant fleet. Many feared such a policy would increase rates for carriage of their goods.[30] The survey of Canadian exporters revealed some divergence of opinion between west coast and east coast exporters. Virtually no east coast exporter complained of lack of capacity or competition. In contrast, a number of west coast exporters, especially those dependent on regular liner services, found too little competition and complained American trade practices reduced their competitiveness in the Asian market.[31]

Exporters both east and west believed no opportunities to expand Canadian trade had been lost by any lack of ability to secure carriage of Canadian goods. Asked their opinion of maintaining a government-run shipping line, similar to the CGMM, no exporter spoke in favour of such a move. Many spoke against it. However, a scheme to encourage Canadian firms to patronize Canadian-registered ships, operated by private firms, gained much support from west coast exporters. Their reaction was described to the Minister of Trade and Commerce as "emphatic" that the war-built fleet should remain under the Canadian flag. Many argued that such an effort could encourage the expansion of Canadian trade. Representatives of the Canadian Wheat Pool also endorsed the idea. But lack of interest typified reaction to the idea in the east, where many services were already available. Exporters reliant on tramp, rather than scheduled liner services, were more direct. West coast shippers dependent primarily on tramp shipping did not want the government to adopt any policy that might preclude the use of the cheapest ships available. Those dependent on tramp services argued, as did Howard Van Dusen, Vice President of H.R.MacMillan Lumber & Shipping Company, that the flag did not matter, "as long as they float and the rates are right."[32]

In assessing Canadian import shipping requirements, the survey by Trade and Commerce indicated there existed no shortage of carriage space before the war. Canadian exports, after all, were generally far greater than imports. Furthermore, the majority of Canadian essential imports came via overland routes from the United States, though perhaps having been landed in American ports. The only Canadian exporters that expressed any interest in improving imports were the manufacturers of rubber goods.[33]

The survey of exporters clearly did not lend much weight to calls for greater intervention in the shipping industry. Their marked ambivalence was reflected in the interim report of the ICMSP. Prepared in April 1944 and submitted to Cabinet in early May,

30. NA RG 46 vol. 1269, Reports of survey, F. Bawden to Minister of Trade and Commerce, January 1944.
31. NA RG 46 vol. 1271, file CSB, see interviews conducted by F.W. Bawden, Trade and Commerce, January-February 1944.
32. NA RG 46 vol. 1271, file CSB, see interviews conducted by F.W. Bawden, Trade and Commerce, January-February 1944.
33. NA RG 46 vol. 1271, file Functions of Canadian Shipping Board, Memo F.E.Bawden, Director of Trade Routes and Steamship Subsidies, to Oliver Master, Acting Deputy Minister, Trade and Commerce, "Ocean Shipping Facilities for Canadian Export and Import Trade," March, 1944.

the interim report did not call for a substantial policy of intervention. The report did not reject the model of the American Maritime Commission, but argued that much greater study was required, and that conditions of post-war trade would need to clarify. In representing a consensus among the competing government bodies involved, the report left open many questions. The interim report noted that the issue was not the creation of a merchant marine, but rather what to do with the one Canada now possessed. The maintenance of an efficient Canadian merchant marine would require some government assistance and supervision "as may be required in the national interest." What that interest was remained unanswered, but the basic consideration "should be satisfaction of the requirements of national Defence and the rendering of service to Canadian export trade." The national security argument was most succinctly presented. Experience since 1939 demonstrated that, without a merchant navy, the Canadian government is not in a favourable position to exercise any effective voice in the international machinery of control established to regulate the movement of imports and exports in time of war.[34]

The ICMSP recognized that the present merchant fleet proved an invaluable lever in international shipping discussions and had met real Canadian shipping demand, but these were not purely commercial demands.

The report noted, however, that the cost of maintaining such a fleet in peacetime might have to be borne through direct government subsidy, or some other means of keeping vessels on Canadian registry, because commercial viability under the Canadian flag proved difficult to predict. In assessing potential post-war commercial demand, the short term prospects, through 1947-48, appeared very favourable for profitable operation of war-built vessels. Post-war economic conditions remained too uncertain to make long-range predictions, but clearly some instability would follow the war. Such uncertainty prompted the ICMSP's recommendation to retain government control of the merchant fleet through at least the initial post-war period, to ensure Canada's interests as an exporting country were met.[35]

Promotion of a Canadian merchant fleet, however, would have to take into consideration the potential effects of measures designed to encourage Canadian shipping. Nations which were accustomed to buying Canadian products on a substantial scale could baulk at carriage demands. Particular concern was expressed for trade with the United Kingdom. The volume of trade to the UK was critical since, among other reasons, United Kingdom trade with Canada served as a vital source of American dollars, essential to the Canadian balance of trade with the United States. Canada's paramount interest, argued the report, lay in the promotion of external trade, not necessarily its carriage in Canadian ships.

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34. NA RG 46 vol. 1270 file "Reports of Sub-Committee, Disposal and Financial Policies, Merchant Shipping Policy," 5 May 1944.
35. NA RG 2, 18 Reports Interdepartmental Committee on Merchant Shipping Policy, Cab.doc. 739, and 740, 14 March 1943, and 22 March 1943.

The available record of subsequent decision making is far from complete. However, from the completion of the ICMSP's interim reports to consideration of the Committee's final recommendations in late 1944, three fundamental issues appear to have caused substantial delay. First, it was necessary to complete a number of detailed studies. The second source of delay appears to be the conduct of international negotiations on post-war shipping arrangements. The final cause was likely the substantial division of opinion within the ICMSP over the appropriate government apparatus to administer a Canadian maritime policy.

Division of opinion within the government and international developments complicated the committee's deliberations. From inception, two questions sparked dissension within the Committee: the economic prospects of the post-war merchant marine, and the need for a centralized government body to manage state policy toward maritime industries. The Committee divided between a *laissez faire* element, and one favouring greater intervention. The non-interventionists favoured the *status quo*. Led by the Deputy Minister of Transport, Commander C.P. Edwards, the advocates of *laissez faire* argued that existing arrangements and policies were sufficient.[36] Edwards found most support from the Deputy Minister of Finance and the representative of External Affairs. Advocates of more positive state policy were John Baldwin of the Privy Council, R.A.C. Henry, former head of Park Steamships and confidant to Howe,[37] and Captain Eric Brand, who spoke for the Navy. This reformist faction enjoyed the favour of both the Minister of Trade and Commerce, James MacKinnon, and C.D. Howe. Yet while Howe supported changes to the *status quo*, he consistently opposed any scheme that promised to involve the government in providing extensive subsidies.[38]

In the end, the debates within the ICMSP were never resolved. In November 1944 its role became redundant, with the creation of the Department of Reconstruction and Supply, authorized by Cabinet in mid-October 1944. Most of the final recommendations of the ICMSP came after C.D. Howe's appointment to the new Ministry. At least in terms of the maritime industries, Howe received a free hand to frame policy. Given that mandate, Howe exercised very personal direction over these questions. By November 1944, Howe's position as *de facto* minister of Reconstruction was confirmed by the Prime Minister. His opinions thereafter held disproportionate weight, effecting the shaping of all reconstruction matters related to maritime industries.

For shipping policy Howe's course of action was informed by late war developments and agreements on the continuation of shipping controls into the initial post-war

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36. NA Howe Papers, vol. 85 file 43 (3), Edwards to Howe, 15 January 1945.
37. As Executive Assistant to Howe at Munitions and Supply, Henry early advocated forming a Canadian Commission along the lines of the American Maritime Commission; see NA RG 19, vol. 3998, file S-12-2-6, Henry to Dr.W.C. Clark, 23 August 1943.
38. NA RG 2,18 vol. 25, file M-15. For an outline of this debate and its factions, see letter J.F. Fredericson to A.D.P. Heeney, Clerk of the Privy Council, 29 September 1944; and D/Hist. Eric Brand Papers, volume II, "Canadian merchant shipping policy, some recollections, 1939-1949," dated December 1969.

period. Chief among the basic assumptions of the ICMSP was that international shipping would compete in an open market shortly after the war ended. Rate competition was favoured by the Department of Finance because it promised to be most favourable to Canadian external trade. Whatever Canadian ocean merchant fleet was to be preserved after the war would depend largely on the nature of that open market. Late war international discussions acknowledged the benefits of an open market, while imposing continuing restrictions. These restrictions and the means of their elimination eventually threatened the existence of the Canadian merchant fleet.

Howe argued to his Cabinet collegues that private operators could provide "a more vigorous merchant marine than could be developed under government auspices."[39] Determining at what size the Canadian merchant marine could operate on a competitive basis fell to Howe's Reconstruction Department for consideration. On the issue of a central co-ordinating body, Howe remained confronted with divided advice. Howe did agree that a centralized body would be formed. However, he explained in March 1945, that appointment would await the termination of the war, so that he could have his pick of someone "of the highest calibre" for the job.[40] Howe's reconstruction committee had hardly addressed the issue of long-term maritime policy when Japanese resistance collapsed in August 1945. Canada was not alone in finding its post-war maritime policy unsettled when the sudden collapse of Japanese resistance brought the fighting to an end.

The many debates on shipping policy and the appropriate apparatus to manage the tremendous national assets present in the merchant marine were never fully resolved within the government. That the protection of shipping should not impede Canadian exports or imports, or reduce the flow of American dollars brought in by trade with the United Kingdom, appeared the major concern of the Department of Finance. Resolving those contradictions proved impossible while the war was on. The government had recognized there would be a maritime legacy to the war. Efforts would be taken to preserve the merchant fleet, but at little cost to the government. The continuation of wartime shipping controls into the post-war period promised to see the fleet remaining profitable, at least in the short term. Through the period of continued controls, the government could consider its options more fully.

Troubles of an Early Peace

Canada's merchant fleet faced ill winds almost as soon as the guns fell silent. Immediately after the war ended, problems of market access impeded the employment of the Canadian ocean merchant marine. Prior to October 1945, few Canadian ocean-going vessels experienced difficulty loading full cargoes for the United Kingdom, Australia, India, South Africa, or the Baltic and Mediterranean regions. Canadian tonnage had

39. NA RG 2, 7c, CWC minutes, 5 October 1944.
40. NA RG 28 vol. 859 file: Meetings of Departmental Heads – Reconstruction Committee, 23 March 1945. Howe clearly favoured appointment of such a body, see RG 28, vol. 859, vol. I, minutes, meetings with Deputy Minister, 22 March 1945.

been integrated into the scheme of deployment drafted by the rechristened allied merchant shipping pools, the United Maritime Authority. As soon as the war with Japan ended, however, international shipping went from a condition of overall scarcity to overall surplus. This led to a series of negotiations beginning in Washington in October 1945 to discuss the issue of overcapacity. There, the United States expressed concern that this overcapacity not result in rabid competition. To maintain the "harmony of the war effort," the United States Maritime Commission proposed rationalizing its war-built fleet by volunteering to lay up some 2,000 vessels, roughly 50 percent of the American war-built Liberty fleet.[41]

Few allies proved willing to reciprocate. A number of European nations, particularly Denmark and Norway, argued their problem was lack of tonnage, not surplus. The Europeans all expressed the opinion that any lay up should come solely from Canada and the United States. Recognizing that international competition would be fierce and that many nations would seek to employ their ships for currency generation, the Canadian Cabinet was prepared to accept disposal of a large portion of the war-built merchant fleet off Canadian registry, but would take actions to encourage the maintenance of a substantial Canadian registered merchant marine.[42] These measures were in concert with the higher Canadian objectives of establishing a more liberal international economic order, and aiding European recovery. In concert with its objective of establishing a new economic order, Cabinet voted to support an "international rationalization"[43] of shipping. The allies were informed that with the end of shipping controls, touted for late 1946, Canadian shipping operations were to be run "entirely upon a 'private enterprise' basis."[44] The details of disposal to foreign nations and steps to encourage Canadian ownership, however, were not settled before a series of crises affected world merchant shipping in general, and Canadian vessels in particular. Actions by the United Kingdom government brought the survival of the Canadian merchant fleet into grave doubt. The impending problems of merchant shipping were in part responsible for C.D. Howe's announcement in April 1946 that the government would form a Canadian Maritime Commission in order to address the fate of both the shipping and shipuilding industries.[45]

Even before Germany's surrender it was clear that moves by the United Kingdom could jeopardize survival of the Canadian merchant fleet. Several senior Canadian diplomats were privy to the true extent of Britain's economic problems. While they may have been brought into the discussions as a means of furthering pressure on the United States

41. NA, RG 19 E3 (J) vol. 3581, file M-17, Interdepartmental Committee on Merchant Shipping Policy, Document #5, "Brief Appreciation of the Situation Regarding Size of Post War Canadian Merchant Navy and Future Policy and Administration," 12 December 1945; and RG 28a, vol. 1425 file 3-I-23.

42. NA RG 28 B, vol. 856, Cabinet Construction Director's files, vol. I, 28 September 1945.

43. NA RG 28 B, vol. 856, Cabinet- Construction Directive, record of Cabinet Decision, 28 September 1945.

44. NA MG 30 E 435 (Capt. J. Heenan Papers), vol.3. Report to the Provisional Maritime Consultive Council, 3 September 1946.

45. J.V. Clyne, *Jack of All Trades: Memories of a Busy Life* (Toronto, 1985), 127.

to deal favourably with British officials, Britain's plight placed the Canadian economy in real jeopardy. The potential effects that Britain's economic problems might have on the Canadian carriage trade were identified early in Canadian discussions of post-war shipping policy.

Healthy trade rather than the carriage of goods had to be the primary Canadian concern. The Departments of Finance and External Affairs hoped that the negotiations commenced at Bretton Woods in 1944 would see an open trading system based on freely convertible currencies. The health of Canada's economy remained tied to the revival of Britain's economy. Expectations of its revival proved premature. Further, the rising tensions of the cold war, and problems of economy and militarism challenged the Liberal government's policy of disarmament and *laissez faire*. Even though Canadian vessels would likely deal primarily within the sterling bloc, the promises of convertibility meant there should have been no problem with Canadian ships earning dollar freights.[46]

The speed with which the British economy moved into crisis after the war, however, was anticipated by few. The full details are well recounted by others, but Canada's efforts to deal with this problem require a little further elaboration. Neither the American State Department nor executive accepted that the immediate suspension of lend-lease would force the Exchequer to develop a sterling autarky. The evidence marshalled by, arguably, the foremost economist of the day, Lord Keynes, demonstrating that the suspension of lend-lease would force Britain into "starvation corner," failed to convince the Americans. Two days after the Japanese surrender, the United States suspended the lend-lease programme. Thereafter, Britain's balance of payments *vis à vis* the United States could not be sustained without severe controls on convertibility and dollar purchases. These controls disrupted the pattern of triangle trade balances upon which Canada depended to finance purchases from the United States.[47]

Canada moved quickly to aid the United Kingdom. In early 1946, a series of discussions were held regarding the extension of special loans at no or low interest to the UK. Eventually, nearly 1.25 billion dollars in Canadian loans were extended to the United Kingdom. In exchange for these favourable mutual aid loans, Britain promised to continue certain large purchases of agricultural commodities, particularly wheat and bacon, from Canada. Canadian trade officials initially sought to use the loans to gain

46. NA RG 2, 7c CWC see discussion of issues raised by the Undersecretary of State for External Affairs, Norman Robertson, in Minutes 4 October 1944; on the promised convertibility, see Alec Cairncross, *Years of Recovery: British Economic Policy 1945-1951* (London, 1985), 85.
47. R.S. Sayer, *Financial Policy, 1939-45* (London, 1956), and L.S. Presnell, *External Economic Policy Since the War. Volume I* (London, 1986) have been of particular worth to this study. On Canadian understanding of Britain's plight and response, see the recollections of the Canadian representative to the early Anglo-American discussions, D.V. LePan, *Bright Glass of Memory* (Toronto, 1979), and Hector Mackenzie's "The Path to Temptation: The Negotiation of Canada's Reconstruction Loan to Britain in 1946," *CHA Historical Papers* (Ottawa, 1982), 196-220.

greater access to the UK market by expanding the sale of these commodities, but the British only agreed to maintain present and historical levels. Though Britain's weakness could not be capitalized on, the present and historical levels of Canadian trade into the UK were essential. For a trading nation that saw nearly 50 percent of all exports go to the sterling bloc, such sales were essential. By late 1946, Canada was extending Britain ten million dollars in credit per month to support purchases from Canada. A revived British economy, with or without tied loans, was a matter of enlightened self-interest for the Canadian government.[48]

The details of how goods got to market ultimately proved less important. In its precarious financial situation, Britain maintained control of sterling and dollar reserves. Such control not only promised to affect the triangle trade, that between Britain, Canada and the United States, but threatened to close off the Empire to Canadian merchant ships. The primary trade routes for Canadian vessels remained within the sterling area; only five vessels were earmarked for operation into strictly dollar areas. As independent states belonging to the Empire, but with economies based on the US dollar, Canada and Newfoundland were excluded from the sterling area.[49] This exclusion severely hampered the operation of Canadian-flagged merchant shipping that relied on trade to the sterling bloc, but required payment in American dollars. The consequences became apparent as Britain's post-war economic troubles worsened.

Restricting the access of Canadian ships to the sterling trades was not a simple consequence of wider fiscal problems; it was itself one object of Britain's growing financial controls. Britain depended heavily on what it traditionally termed "invisible" earnings. Invisibles consisted of earnings to current accounts attributable to shipping receipts, interest payments, and profits and dividends on foreign investments. In pre-war trade, invisibles closed the gap in Britain's trade balance. Invisible earnings constituted a significant component of Britain's trade requirements, but the level of invisible trade earnings was not expected to recover quickly after the war. That only increased their importance. Through the two world wars, Britain divested 42 percent of its overseas assets. Consequently, it could not expect the same degree of invisible contributions from those assets. The British merchant marine provided the one area of invisible earnings that could be made to increase. Pre-war, the British merchant marine contributed nearly one-third of net invisible earnings. The Exchequer recognized early in post-war financial planning that merchant shipping would be very important to the post-war economic recovery. At the close of the war, however, Britain's merchant fleet consisted of 30 percent less tonnage than in 1939. A crash merchant shipping programme would

48. J.L. Granatstein, *How Britain's Weakness Forced Canada Into the Arms of the United States* (Toronto, 1989), 46-7; Cairncross, *Years of Recovery*. See also Susan Hawson, "The Origins of Cheap Money 1945-7," *Economic History Review* (1987) 15:3:433-452; Robert Bothwell and John English, "Canadian Trade Policy in the Age of American Dominance and British Decline, 1943-47," *Canadian Review of American Studies* (1977):8:52-65.

49. NA RG 28A vol. 1425 file 3-I-23, A.L.W. MacCallum, Chairman, CSB to Honourable James A. MacKinnon, Minister of Trade and Commerce, 16 November 1945.

correct that figure by late 1948. Very particular attention went to ensuring Britain's merchant marine at least regained its share of invisibles.[50]

Canadian measures to redress such action would clearly have to take into account the fact that Canada's primary interest was not in the carriage trade, but in the selling of export goods. The first time that dilemma was faced, the Canadian government salvaged both interests. Nearly all the Park Ships relied on carriage to the sterling area. The first financial crisis struck in the wake of the suspension of lend-lease. Britain responded by introducing measures to conserve US dollars. Despite prior allied agreements to maintain wartime shipping controls through 1946, there was no basis of agreement to ensure utilization of capacity by assignment of vessels and cargoes according to a quota arrangement. A number of importing countries attempted to use their own shipping whenever possible, as a means of earning foreign currency, or protecting their foreign reserves. Canada's protests that its flag tonnage should be given a proper share of movement of material throughout the regulated areas had only limited effect. The problem became acute when, in November 1945, Britain imposed new restrictions on trade within the sterling bloc. The UK Treasury instructed the Ministry of War Transport to curtail the use of all dollar-cost vessels in the movement of cargoes from North America to all sterling areas.[51]

Canada controlled nearly 2.5 million tons of shipping, but most depended on trade to the sterling bloc. However, UK shipping authorities promised carriage to less than ten Canadian ships. During discussions held in Washington in late 1945, representatives of Canada's Trade and Commerce and the Canadian Shipping Board discussed with Sir Cyril Hurcomb, the Director of the British Ministry of War Transport, how to avert the crisis. The British representative stated quite frankly that the Exchequer could not afford to expend dollars on Canadian vessels. He pointedly suggested Canada go one better on the American lead, and lay up most of its fleet. Rebuffed in Washington, the Canadian position gained a second hearing when Sir Cyril found it necessary to visit Ottawa to discuss retaining British control over the large number of ships loaned her by Canada under wartime aid agreements. Short of ships, Britain wished to continue operating nearly 100 Canadian vessels for a number of years. In discussions C.D. Howe inveigled Sir Cyril into integrating Park ships on a dollar cost basis in the movement of goods. Sir Cyril agreed to allow a number of Canadian ships into the sterling bloc trades through the remaining period of direct government control, which was first scheduled to end in February but later postponed to October 1946. No record of minutes from the meeting can be found but, clearly, Howe threatened to demand an immediate return of the Mutual Aid ships. In effect, Howe demanded a *quid pro quo* solution: the United Kingdom could continue to operate Canadian-owned ships on loan to them, but only if

50. On the role of invisibles, see Presnell, *External Economic Policy*, 3; on the size of the post-war merchant marine, see Thomas Hughes, *Armed Truce* (London, 1988), 316; on British divestment through two world wars, see Cairncross, *Years of Recovery*, 78.
51. NA RG 28A vol. 1425 file 3-1-23, A.L.W. MacCallum, Chairman, CSB to Honourable James A. MacKinnon, Minister of Trade and Commerce, 16 November 1945.

a roughly equal number of privately owned Canadian ships remained engaged in sterling bloc trade. Howe's actions gained some breathing space for the Canadian fleet. The specific agreement promised to keep 90 of the 110 large Park ships employed, thus greatly reducing the immediate pressure to lay up the majority of Canadian ships. However, if there was to be full employment of the Canadian merchant fleet after the termination of allied controls, some means to ensure continued access to the sterling area became necessary.[52]

To establish the post-war merchant marine on a "private enterprise" basis, Cabinet had already endorsed a policy of selling off the fleet to Canadian operators.[53] Britain's actions forced some reconsideration of this policy. Through December 1945, a reconstituted Interdepartmental Committee on Merchant Shipping Policy studied the needs of a competitive merchant fleet. While some, like A.L.W. MacCallum, warned the fleet could never be competitive, others argued that much of the Park fleet could find employment. The Park fleet, however, constituted only about two thirds of total Canadian tonnage. Cabinet authorized efforts to maintain the former Park ships on Canadian registry.[54] However, in light of this crisis, and on the recommendations of the Departments of Finance and Reconstruction, the Cabinet decided to sell approximately one million *dwt* of shipping off Canadian registry. The plan endorsed by the Cabinet called for the maintenance of a merchant fleet of approximately 1.5 million *dwt*, that is, virtually the entire Park Steamship fleet which numbered some 156 ships at the end of the war. Most of these would continue in Canadian hands after the disposal to non-Canadian operators of some one million tons of war-built shipping. Translated into ships, the plan supported by Cabinet called for retaining on Canadian registry some 140 ships, of which 110 were 10,000 *dwt*, that were to be sold to Canadian owners.[55]

To encourage the establishment of a Canadian registered merchant fleet, the surplus dry cargo vessels would be sold to Canadian companies under preferential conditions. These included deferred payments and prices below international market value. In light of these terms, the government imposed what became called the "flag covenant." This covenant entailed restricting foreign sale of these vessels by requiring prior written gov-

52. NA RG 28A vol. 1425 file 3-I-23, letter Mark McGlung, Office of the Privy Council to V.W. Scully, Deputy Minister of Reconstruction, 19 December 1945, Minutes Interdepartmental Committee on Merchant Shipping Policy, 21 December 1945; RG 19 E3(J) vol. 3581 file M-17, ICMSP docs. number 5, "Brief Appreciation of the Situation Regarding Size of Post War Canadian Merchant Navy and Future Policy and Administration," 12 December 1945.
53. NA RG 2, Cabinet minutes, 15 September 1945.
54. NA RG 28A vol. 1425 file 3-I-23, letter Mark McGlung, Office of the Privy Council to V.W. Scully, Deputy Minister of Reconstruction, 19 December 1945, Minutes Interdepartmental Committee on Merchant Shipping Policy, 21 December 1945; RG 19 E3(J) vol. 3581 file M-17, ICMSP docs. number 5, "Brief Appreciation of the Situation Regarding Size of Post War Canadian Merchant Navy and Future Policy and Administration," 12 December 1945.
55. On rationalization of Canadian fleet, see RG 28 B, vol. 856, Cabinet Construction Director's Files, vol. 1, 28 September 1945, and RG 46 vol. 1275 f. [Park S.S.] General Correspondence 1948-1966.

ernment approval. In years to come this covenant proved the most effective tool in the government's repertoire for shaping the fate of the ocean merchant marine. Had many buyers foreseen the lengths to which the government would insist on exercising the flag covenant many would likely have forsaken the offer to purchase. At first it no doubt appeared a reasonable entanglement of the owner's privileges given the favourable purchase price.

Through 1946, roughly two thirds of the war-built merchant fleet was sold under covenant to Canadian operators; the remainder went to foreign purchasers. By June 1947, some 104 of the larger war-built vessels and 25 smaller ships had been sold to a total of 33 Canadian registered shipping companies. Another 80 of the larger vessels remained on lease to the United Kingdom under mutual aid, but were to return to Canadian control by the end of 1950.[56] Although the sales came in the face of growing international impediments to Canadian-flagged shipping, they met gales of public criticism. In April 1946, partially to allay public criticism of current maritime policy, C.D. Howe announced the government's intention to form a Canadian Maritime Commission to recommend the best course to steer Canadian maritime policy.[57]

A Canadian Maritime Commission and Protection

The government's response to the developing problems of the merchant marine remained largely unco-ordinated until the formation of the Canadian Maritime Commission. Granted only advisory status when formed, the Canadian Maritime Commission gained within eighteen months the executive powers to determine the fate of the merchant marine. It gained this authority only in the face of rising international tensions and commercial trade barriers. Before the formation of a co-ordinating organ for maritime policy, expediency rather than planning typified Canada's post-war maritime policy. The rise of the Maritime Commission marked the end of the period of *laissez faire*. In recognition of the growing commercial impediments to Canadian maritime interests, Cabinet soon began addressing protective measures recommended by the Commission.

Drafting the bill to form the Commission, and then developing considered policy, proved very protracted. Only in late 1948 would the Commission begin to affect policy.[58] More than two years elapsed between Howe's announcement of the government's

56. Originally the British Ministry of War Transport leased 98 Canadian-built vessels under these arrangements, but eight were lost during the war. They now agreed to purchase ten of the remaining 90, with the remainder being returned to Canada in two lots by the end of 1950. On details of the terms of disposal, see *Hansard*, 20 November 1945, 2316; draft speech on bill to create the Canadian Maritime Commission, prepared by Capt. Eric Brand for C.D. Howe, 16 June 1947, Directorate of History, Headquarters, Department of National Defence (D/Hist). Capt. Eric Brand Papers, vol.II; and, NA RG 46 vol. 1275, file "Vessel Lists," "Canadian Purchasers of 'Park' Vessels," 20 January 1948.
57. J.V. Clyne, the first Chairman of the Commission, maintained Howe informed him this announcement was prompted by such public clamour. Clyne, *Jack of all Trades: Memoirs of a Busy Life* (Toronto, 1985), 127.
58. NA RG 46 vol. 1169, f. 100.00 "Explanatory Notes on Proposed Canadian Maritime Commission," 9 January 1947.

intention to form the Commission and its first major policy proposals. By then the international competitive situation of Canadian shipyards and merchant shipping had moved from a period of buoyancy to impending collapse. By late 1948, the Maritime Commission recognized a continued policy of *laissez faire* would spell the disappearance of both.

The Chief Commissioner, John V. Clyne, appointed by Howe, applied his particular economic views to avoiding that end. An Admiralty lawyer and lifelong acolyte of Adam Smith, Clyne at first resisted pressures to make the Maritime Commission a large regulatory body charged with subsidizing, by fair or foul means, the merchant fleet. During the war, Clyne had represented the government in a number of maritime cases, particularly in prosecutions of delinquent merchant seamen. From his exposure to Park Steamships, Clyne grew to accept government support for continuing a merchant marine after the war. Shortly after appointment, Clyne pushed successfully for transferring responsibility for Park Steamships from the Department of Trade and Commerce to the Commission.[59] Thereafter, until his appointment to the high court of British Columbia in early 1950, Clyne attempted to find viable markets for these vessels. In the face of that continuing struggle Clyne eventually recommended a subsidy scheme.

Canadian shipping companies spoke with a divided voice to the Maritime Commission once it commenced a series of studies in 1948 to gauge the long term viability of the industry. Ocean operators, however, did not speak with one voice. Rather, the interests of ocean operators were represented by two often distinct groups. The Shipping Federation of Canada presented one point of view. Formed in 1903 and headquartered in Montreal, the Shipping Federation represented the interests of ship-owners and operators in negotiations with waterfront labour, seamen, dockhands, trucking firms and various port authorities and customs officials. In negotiations, the Federation represented the interests of all major firms that engaged ocean vessels in commercial trade with Canada. The foreign shipping interests represented by the Federation were predominantly of British registry, operating on long-established Canadian routes, such as those employed by the ships of Dominion Steel operating between Nova Scotia and the St. Lawrence, or in trades between Canada and Europe.[60] The Federation resisted any proposed measure that would limit access to Canadian waters by British or other foreign shipping traditionally allowed that access.[61]

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59. NA MG 30 A12 (Jim Green Papers) vol. 3, file 12, Interview of J.V. Clyne by Mr. Jim Green, 13 January 1981.
60. By 1971 the Federation represented exclusively British-registered shipping in Canada. Information on Shipping Federation derived from"Report of Canadian Chamber of Shipping" (Ottawa, 1971), 9. See also Kaplan, *Everything that Floats*, 60.
61. As had been the pre-war case. See, for instance, the letter to Prime Minister R.B. Bennett, from Vice-President Dominion Steel and Coal Corp., 10 March 1934, and Nova Scotia Transportation Commission, Maritime Board of Trade, letter to Bennett, 14 March 1934. Similar objections could be raised about west coast ports see, letter "R.K.F." to Sir George Perley, acting P.M., 8 September, 1934, in R.B. Bennett Papers, box.704. Throughout the period 1945-1955, the Federation's Chairman, A.L.W. MacCallum, former head of the Canadian Shipping Board, maintained easy access to the highest circles of government.

The particular interests of Canadian owners would not be represented by a separate lobby until the Canadian Shipowners' Association formed in March 1953.[62] Before the creation of the Canadian Shipowners' Association, the Canadian purchasers of former Park Steamship vessels often gained independent hearing by the Maritime Commission. These divisions placed the Commission in the invidious position of reconciling sometimes contradictory shipping interests. In the period 1947 to 1949, however, Canadian shipowners most often perceived no conflict between their needs and those of the Shipping Federation. When tightened controls on the convertibility of sterling hindered all Canadian oceanic shipping operations, shipbuilders, shipowners, and the Federation requested the Commission find means of easing Canadian access to the sterling bloc.[63]

International shipping markets were not returning to a free enterprise basis. Continuation of allied controls guaranteed that a proportion of British cargoes were assigned Canadian-flagged vessels. When access to British markets was threatened and the merchant marines of other nations revived, the once buoyant demand for Canadian bottoms could not last. In 1946, Canadian-flagged vessels moved over sixty-percent of cargoes entered and cleared from Canadian ports. Thereafter the number would decline precipitously.[64] With the expiration of the British undertaking to help arrange carriage in Canadian bottoms while formal shipping controls remained in place, Canadian ships would find themselves in open competition with other dollar freight carriers for a share of world freight. This occurred at a very inauspicious moment.

European economic recovery was already slowing. Through 1947, just as international shipping was being released from control, the UK moved into a worsening balance of payments crisis. Consequently, Canadian access to the sterling bloc was progressively restricted. In light of fiscal problems, Britain redoubled its efforts to secure hard currency and limit dollar expenditures through shipping receipts, the most traditional of British "invisibles." Devaluation of the pound sterling in mid-1947, leading to the suspension of convertibility in August 1947, greatly worsened the situation for Canadian shippers. Lack of convertibility of sterling meant Canadian crews, demurrage, and other fees could not be paid in dollars.

This situation was made worse by a stipulation attached to the European Recovery Program, better known as the Marshall Plan, announced in June 1947. American-registered vessels were required to carry 50 percent of Marshall aid cargoes.[65] As

62. The author thanks the new Canadian Shipowners' Association, Ottawa (based on the former Dominion Marine Association), for access to the files of the original CSA. The discussion of CSA activities throughout this work is based on these files, particularly the notes and records left by M.G. Angus; see, CSA records, file 50-1 History and Role.
63. NA RG 46 vol. 1330, Minutes Canadian Maritime Commission, 1948.
64. NA RG 46 vol. 1275 file: "History of Park Steamship Company," H.J. Rhalves, "Development, Operations and Disposal of Crown-Owned Park Steamship Company Limited Vessels" (9 May 1947), 11.
65. On these various fiscal problems, see C.C.S. Newton, "The Sterling Crises of 1947 and the British Response to the Marshall Plan," *Economic History Review* (1984) 28:3:391-408; and

shipping formed an important generator of foreign currency for most European nations, the recipient states sought to carry the remaining 50 percent of ERP purchased cargoes in vessels under their flag.[66] These progressive impediments to Canadian access to the sterling area met only *ad hoc* response from the Canadian government. Regardless of the plight of Canadian carriers, the continuation of Canadian external trade remained essential, but troubled by these difficulties. Problems of carriage could only be secondary to problems of exporting in general. Yet the many and growing impediments to Canadian carriage did bring concerted government attention because, for the merchant marine, the world of *laissez-faire* trade had not materialized.

From inception, the Maritime Commission possessed a quasi-military purpose. As the cold war deepened, this purpose moved to the fore.[67] By the close of 1948, both shipping and shipbuilding were gaining new appreciation as strategic assets. Putting aside any detailed discussion of the Maritime Commission's role in the naval building programme and general efforts to preserve the shipbuilding industry, it can be asserted that shipping policy was not completely divorced from those issues. In train to developing naval plans, government attention turned to Canada's industrial defence base. Preserving a strategic shipping capability while redressing the economic plight of the industry remained closely tied within the Commission's deliberations and subsequent government policy.

The Maritime Commission's increasing participation in planning the naval rearmament programme came just as international shipping was moving into a new crisis. A series of informal agreements, bolstered by moral suasion, had seen the United Kingdom make efforts to ensure that approximately 30 percent of the cargoes it moved from Canada into the sterling areas went in Canadian ships. Through the last quarter of 1948, however, the British Ministry of Transport stopped acting in this manner. The right of cargo assignment was transferred from the Ministry to the main British Conference lines. The British government favoured Conference liner services. Shipping "conferences" were composed of subscribing liner services. The North Atlantic Conference, for example, operating out of London, allotted cargoes at guaranteed rates to the various member liner companies. Exporters could avail themselves of the timely and reliable liner services by agreeing to ship only in conference liners. As restrictive trade organizations, conferences had previously come under criticism for rate fixing by the Canadian and other governments, but the international character of such practices made them hard to combat.[68] Nevertheless, they remained cartels, which British practice now encouraged.[69]

Vibeke Sorensen, "The Politics of Closed Markets: Denmark, the Marshall Plan, and European Integration, 1945-1963," *The International History Review* (1993) 15:1: 23-45.

66. NA RG 19 vol. 4432, file 9460-00 vol. 1 letter J.V. Clyne to Dr. W.C. Clark, Deputy Minister of Finance, 28 September 1948.

67. Louis Audette Private Papers, A.D.P. Heeney to Chevrier, 12 November 1948; NA RG 46 vol. 1192 file 2401 pt.1 Clyne to Chevrier, 5 October 1948, and Howe to Clyne, 12 October 1948.

68. Ingrid A. Bryan, "Shipping Conferences and Canadian Shipping Policy," *New Directions in Federal Marine Transportation Policy* (Toronto 1975), and Restrictive Trade Practices Commission, *Shipping Conference Arrangements and Practices* (Ottawa, 1965).

69. NA RG 19 vol. 4432, file 9460-00 vol. I, Clyne to Dr. W.C. Clark, 28 September 1948.

Under the new British arrangement, the conferences assigned cargoes among conference members, thus reinforcing the conference system. The bulk of the newly established Canadian shipping firms operated tramp services, but the conference system was solely the preserve of liner services. British-owned liner services contributed most to Britain's invisible earnings (shipping receipts). Because no Canadian shipping firms belonged to the major Atlantic conferences, they were not assigned a percentage of carriage. After the shipping conferences received the power of cargo allocation, Canadian ships did not and would not receive allocated cargoes in the proportions previously agreed to by the British Ministry of Transport.[70] It took a number of months for Canadian firms to realize they were being squeezed out of the UK/sterling market.[71]

To overcome these new hurdles, J.V. Clyne personally conducted negotiations with UK treasury officials. In these discussions, Clyne pointed out that restrictions, such as the United States policy of carrying 50 percent of Marshall Plan cargoes, and Britain's recent actions to restrict the use of Canadian shipping, jeopardized the survival of both Canadian shipping and shipyards. He asked for assurances that Britain would take some 15-20 percent of total volume in Canadian ships. British Treasury officials defended their restrictions on Canadian vessels, maintaining that the "exigencies of Britain's position might render such practices necessary."[72] Discussions held later that month only confirmed this attitude. Clyne mooted restricting imports of merchant tonnage capable of participating in the coastal or lakes trades, thus blocking the sale of new British-built tonnage. This step could not help the merchant marine, but would protect the shipyards. In reply, British officials coldly stated that such a move would only adversely affect the Canada-UK trade balance, and "that a reduction of repair facilities in Canadian yards would be less serious to the United Kingdom and to Canada ...."[73]

The Canadian Department of Finance came to share the British view. The object of mutual aid was to ensure Britain's essential liquidity. Any effort to demand reciprocal purchases in Canada simply reduced the most efficient use of the money made available through mutual aid. The Department's position was that direct subsidies to Canadian merchant shipping would be preferable to any indirect methods such as tying mutual aid. The Department also opposed restricting the importation of vessels. Clyne did not pursue the matter; nevertheless, negotiations on carriage assignments continued until the British Ministry of Transport agreed to take measures to maintain Canada's participation in sterling freights by inveigling the conferences to give some cargoes to Canadian

70. NA MG 32 B 21 Rt. Hon. George Marler Papers (hereafter Marler Papers) vol.86, file 94-8, "An Economic Report on the Canadian Merchant Marine," Bureau of Transportation Economics, Department of Transport, August 1948. This report formed the key shipping background paper for the early recommendations of the Canadian Maritime Commission.
71. NA RG 19 vol. 4432, file 9460-00 vol. 1, J.V. Clyne to Dr. W.C. Clark, Deputy Minister of Finance, 28 September 1948.
72. NA RG 19, vol. 4432, file 9460-00, letter Clyne to Dr. W.C. Clark, re: discussions with UK Treasury, 28 September 1948.
73. NA RG 19 vol. 4432 file 9460-00, minutes of meeting in offices of the Canadian Maritime Commission, between J.V. Clyne and Sir Gilmour Jenkins, 22 November 1948.

bottoms.[74] Because this new agreement promised continued access, Canada remained the only nation with a substantial merchant fleet that did not take direct measures to assign international cargoes to the national merchant fleet.

The new access agreement brought short relief. The ability to trade in free competition, already questionable, faced greater hurdles. Britain and a number of other nations had avoided being tied to the 50 percent American carriage clause of the Marshall Plan by creative accounting practices. The UK government, for instance, used separate funding to pay for shipping of cargoes purchased through Marshall Aid. By not using dollars made available through the Marshall Plan, Britain was able move the majority of its Marshall Aid purchased goods in wholly British vessels. In early 1949, the United States moved to close this loophole. If Canadian vessels were experiencing difficulties when Britain was able to assign nearly 100 percent of their cargoes to UK ships, the plight of the Canadian ships was only made worse by these new American steps. Canada's protests that increased American flag discrimination was contrary to principles of non-discrimination and multilateral trading were to no avail.[75]

Other initiatives to open the market similarly fell on deaf ears. An initiative wholly within the control of the government and Canadian industry was launched to modernize the oceanic fleet in an effort to make it more competitive. The Maritime Commission recognized that Canadian shipping operations were having problems securing cargoes because the bulk of the fleet was competing with other obsolescent vessels in the tramp trades. Canadian operators complained of finding stiff competition from "faster and more efficient" vessels.[76] The Canadian 10,000 and 4,700 *dwt* vessels were of the general dry cargo type, comparable to the ordinary tramp ships of the pre-war period: that is, mostly bulk carriers with moderate speed of 10-11 knots. As such, they could not compete with the specialized ships, such as refrigerated vessels or fast passenger/cargo ships, employed by most liner services. The Canadian merchant fleet, therefore, required extensive modernization in order to compete in that market.

The first measure proposed by the Maritime Commission to aid fleet modernization, essential for the preservation of ocean shipping, was directly tied to protecting Canadian shipbuilding. J.V. Clyne succeeded in having Cabinet accept a plan that promised to reduce operating costs through encouraging the construction of a more efficient and modern merchant fleet. This initiative depended on the flag covenant previously imposed on former Park Steamships. The scheme proposed by the Maritime

74. NA RG 19 vol. 4432 file 9460-00, letter J.V. Clyne to Dr. W. Clark, Deputy Minister, Finance, 25 November 1948.
75. NA RG 19 vol. 4432, file 9460-00, letter Clyne to Clark, 22 November 1948, ltr. Clark to Clyne, 1 December 1948; letter Clyne to J.J. Deutsch, Director of International Economic Relations, 6 December 1948; Cabinet Minute, 25 January 1949, minutes, Interdepartmental Committee on Merchant Shipping Policy, 2 February 1949; message Minister of External Affairs to Canadian Ambassador, Washington, 3 February 1949.
76. NA Heenan Papers vol. 2, file 2-5, letter, A.L. Lawes to Capt. J. Heenan, Director of Trade Routes Division, Department of Trade and Commerce, 7 May 1947.

Commission, called the Tonnage or Ship Replacement Plan, would allow owners to sell their Park vessels, or other ships subject to the flag covenant, out of Canadian registry. To do so, however, the owners had to undertake to place in escrow a sum equal to either the selling price of the vessel, or an amount equal to the original purchase price from the government, whichever the greater. These escrow monies had to be used for building or purchasing new or more modern ocean merchant vessels.

The proposal brought to hand by Clyne came in response to the immediate problems caused by Britain's suspension of sterling convertibility in August 1947. In February 1948 Cabinet approved the Replacement Plan.[77] The original Replacement Plan had little effect. The effort to modernize the merchant marine through the Replacement Plan did not result in increased orders for new vessels. Some 39 vessels were sold under this plan through 1949, but building for the unprofitable ocean trades did not follow.[78] Instead the escrow monies generated by the sale of covenanted vessels were used to effect minor modifications to existing vessels or simply retained in escrow bank accounts for future use. Confronted with a decline in foreign sales of Canadian tonnage, the Maritime Commission introduced a number of amendments to the plan. Nevertheless, the Replacement Plan advanced to aid ocean shipping became the hook on which further protection for the shipbuilding industry was hung.[79]

While working on the naval rearmament programme, the Commission continued studying comprehensive measures of protection for both shipbuilding and shipping industries. In February 1949 Clyne argued that a comprehensive programme of protection was essential. Clyne informed the Minister: "I can see no other way of keeping these industries afloat."[80] But resistance to the idea of subsidies within Cabinet, always strong, was going to strengthen in light of Canada's own fiscal difficulties. While ruling out direct subsidies, the Commission secured several other means of protecting the shipbuilding industry.

For both shipping and shipbuilding, cheaper foreign competition reduced their international competitiveness. Under the Commonwealth Merchant Shipping Agreement (1931), and the Canada Shipping Act (1935), Canadian ship operations were open to direct competition from United Kingdom vessels. Moreover, Canadian shipbuilders competed with UK builders within Canada's domestic market, and there were no restrictions on the importation of new vessels from within the Empire. Recognizing that neither the international shipping nor shipbuilding markets operated according to free

77. However, drafting the detailed proposal met considerable delay, and it only received formal approval in January 1949 (P.C.178).
78. Steel shortages, caused by Canada's own balance of payment problems, and full order books in 1948 meant Canadian yards would not be able to begin new construction on a large number of merchant ships until late 1949. See NA Heenan Papers, vol. 2, file 2-5, letter A.L. Lawes to Capt. J. Heenan, Director Trade Routes Division, Department of Trade and Commerce, 7 May 1947.
79. See my "The Rise and Fall of Free Enterprise: State Intervention in Canadian Shipbuilding, 1945-1966," *Journal of the Canadian Historical Association* 2 (1991), 129-45.
80. Audette Private Papers, Clyne to Chevrier, 11 February 1949.

market principles, Clyne proposed measures to close or protect the Canadian market from all foreign competition. These recommendations marked a real departure from Clyne's earlier anti-protectionist position, but he had come to view these steps as essential if the Canadian industries were to survive. Clyne recommended closing the coastal trade to all non-Canadian vessels. Further, he proposed to help equalize costs between Canadian and British shipbuilding by advancing low-cost building loans. Clyne's plan was to build twenty-five modern merchant ships over a seven year period. The developing naval building programme, also being partially planned by the Maritime Commission, promised additional support to the shipyards and naval work promised to reduce yard overheads.[81]

The detailed naval building programme and the Commission's recommendations for stimulating civil shipyard orders went to Cabinet for consideration in March 1949. Cabinet accepted the naval building proposals, but it bound over, until 1 March 1950, most of the Maritime Commission's civil recommendations.[82]

What ideological resistance to subsidizing the merchant fleet existed in Cabinet gained support from the worries of the Finance Department. Canada's balance of trade problems were expected to worsen over the year. Very recent talks with UK officials had confirmed that new strictures would be placed on access to the sterling bloc. Many industries would be seeking relief from a government purse too poor to respond. Rearmament alone would place a strain on the economy. The shipyards would have to make do for the moment with naval work. As it happened, Canada's financial predicament in 1949 proved worse than Finance officials foresaw. It struck a blow to Canadian ocean shipping from which it never recovered.

Farewell, the Merchant Fleet

Shortly after Cabinet deferred addressing the Maritime Commission's civil proposals, merchant shipping experienced the first of several major setbacks that came in 1949. First, in May, a labour crisis erupted into an international strike that disrupted Canadian shipping until late July. Almost immediately after the strike was settled came a second blow. A major fiscal crisis, caused by an unforeseen devaluation of the pound sterling, effectively rendered the Canadian merchant fleet economically moribund. The strike had already brought a number of shipowners to the verge of bankruptcy; devaluation then rendered the carriage of goods in Canadian ships uneconomic. The majority of shipowners prepared to lay up their vessels, rather than run operations at a substantial loss. It fell to the Maritime Commission to develop a plan for the fleet's survival. The solution struck upon proved unique in the history of maritime trade, and was made possible only by the shared strategic requirements of Canada and the United Kingdom: to preserve a Canadian-owned fleet, the Maritime Commission arranged a mass transfer of ships from the Canadian flag to the Union Jack. The ships remained Canadian but the crews, fees and charter rates became British.

81. Audette Private Papers, Cab. doc. 901/1949, "Assistance to Shipping and Shipbuilding," March 1949.

82. Audette Private Papers, memo. A.D.P. Heeney to Chevrier, 1 March 1949.

Beyond problems of market access, the Canadian merchant marine suffered from poor labour relations. Continual labour unrest clearly informed the Maritime Commission's and Cabinet's response to the merchant marine's financial crises. From 1946 to 1949 the Canadian Seamen's Union (CSU) sought to dominate the merchant trades on the Great Lakes and Atlantic coast. Strikes and violence accompanied these efforts. Following the Lakes Shipping crises of 1946, the CSU negotiated annual contracts. Work stoppages accompanied these efforts in 1947 and 1948. In March 1949, the Shipping Federation of Canada, representing most Canadian merchant lake and ocean ship operators, refused to negotiate a new contract with the CSU. In a move of dubious legality, the Shipping Federation sought to replace the CSU with the American-led Seafarers' International Union (SIU). As soon as the CSU's contract expired the Shipping Federation arranged for the SIU to begin replacing CSU crews. With some justification, the shipowners argued the CSU was communist inspired and bent on disrupting shipping to Europe. The precipitous actions of the Federation fulfilled that expectation when the CSU called a world-wide strike of Canadian shipping. In Britain the stevedores went out in sympathy and a national emergency was declared. The strike lasted until 22 July and won the Union nothing but the ire of the government.[83]

The strike proved disastrous for the CSU. After losing control of most ocean shipping, the Union was roundly denounced as communist. Following the strike, the Labour Relations Board decertified the CSU.[84] The Canadian government officially remained neutral throughout this dispute. Officially, the only major concern was with the breach of the Canada Shipping Act which prohibited Canadian seamen striking a ship in a foreign port. What members of the government knew or cared of the Union's alleged "communist" domination will perhaps never be adequately known – there is a very curious gap in many of the official and personal papers.[85] Without documentary evidence, it remains only speculation that the government conspired with representatives of the industry to destroy the CSU because it was a communist organization.[86]

The financial interests of the shipowners should not be lightly discarded as ample cause to seek relief from the CSU. Two major issues concerning the shipowners were operating costs and the allegations that the Union was communist dominated. Regarding the first of these concerns, Canadian operating costs were relatively high. Canadian ships were overmanned, compared to most tramp vessels. Many Canadian ships, because of

83. This discussion of the fate of the CSU is derived from Kaplan, *Everything that Floats*, 66-68. See also Jim Green, *Against the Tide: The Story of the Canadian Seamen's Union* (Vancouver, 1986).

84. Kaplan, *Everything that Floats*, 71.

85. This gap exists in otherwise continuous files maintained by the Canadian Maritime Commission, the Department of Transport, and the Department of Labour, and also exists in the papers of the Prime Minister, C.D. Howe, the Minister of Transport, Lionel Chevrier, and the Minister of Labour, Humphrey Mitchell. For discussion of the strike, see NA RG 2 vol. 125 file D-16-3-5, Cabinet minutes, 20 May 1949; memo for Mr. Claxton, 28 April 1949; Cabinet doc. 974, 27 May 1949.

86. For such speculation see Green, *Against the Tide*, passim.

their antiquated machinery, required larger crews, thus they employed nearly the same manning schedules as had been accepted during the war when economy of operation was not a priority. The CSU assiduously resisted efforts on the part of shipowners to reduce manning levels. As for the second issue, the owners' concern with the alleged communist domination of the CSU was not purely ideological. American authorities had begun to raise the issue. From late November 1948, the US Immigration Department began threatening to place barriers in the way of CSU manned ships landing in American waters.[87]

Whatever the role of internal security concerns or government collusion in the destruction of the CSU, the change in union could not redress the underlying incapacity of the ocean fleet to compete internationally. The Maritime Commission considered subsidies. Notwithstanding ideological opposition, the government's liquidity problems would have made it a hard sell. The Chairman of the Maritime Commission, however, was not convinced that even subsidies would work. As Clyne explained to the Deputy Minister of Finance, Dr. William Clark, the decline in Canadian shipping "is primarily due to the inability of the Canadian shipping industry to engage in free and open competition...."[88] Subsidies would not bring cargoes. Subsidies could not overcome the carriage restrictions imposed by British actions and the Marshall Plan. Subsidies would not end efforts by nations to preserve their currencies, or earn foreign dollars through shipping. Canadian ships were being forced to compete in a market restricted and protected by others. Moreover, as faster, more modern tonnage entered service, the Canadian war-built ships moved into the most competitive tramp market where a difference of pennies in operating expenses could make or break a contract.

Whatever the merchant marine's labour problems, in early May 1949, the Secretary of the Cabinet was informed that the Canadian shipping fleet was "in real danger of extinction due to the increasing restrictions placed by other countries on the use of Canadian ships."[89] Cabinet was requested to give the Maritime Commission clear guidance. The merchant shipping question did not receive concerted attention until a greater trade problem arose in the face of precipitous British actions which caused an immediate, fatal, crisis for Canadian shipping.

At the end of June 1949, in the face of a balance of payments crisis, the UK government stopped all dollar expenditures. Negotiations forestalled international panic until 18 September 1949, when the Chancellor of the Exchequer, Sir Stafford Cripps, unexpectedly announced the pound sterling's devaluation from US $4.03 to US $2.80. One objective of the British move was to reduce the amount of dollar trade by British shipping. That effort proved a success – Britain's dollar and gold reserves, earned primarily through invisibles, increased 70 percent by June 1950. Devaluation succeeded

87. From late November 1948 the US Department of Immigration began warning Canadian shipowners that it was prepared to begin controlling the freedom of members of communist unions, see Kaplan, *Everything that Floats*, 61-2.
88. NA RG 19 vol. 4432 file 9460-00 Clyne to Clark, 25 November 1948.
89. NA RG 19 vol. 4432, file 9460-00, cmnts of Mr. Fisher, ICMSP, to A.F.W.Plumptre, reproduced in letter, Plumptre to Norman Robertson, Secty. of the Cabinet, 4 May 1949.

for the UK by drastically increasing its invisible earnings, and changed the ratio of UK imports from the dollar area to the sterling area: by June 1950, the ratio had gone from 62/38 to 48/52, and the trend continued, peaking in 1953 at 40/60.[90]

British devaluation ignited an international currency crisis that hit Canada particularly hard. The devaluation came after repeated assurances from the Exchequer that such a course of action would not be taken. In these discussions, Canadian officials remonstrated that such precipitous action would cut the British off within a high cost area. Protection by import restrictions would only weaken the global economy, and force Canada to trade more extensively with the United States. Both proved true.

Britain's actions resulted in the devaluation of other currencies. Canada's fiscal problems worsened, especially as the government was moving to divert receipts into the rearmament programme.[91] By the end of September, Canada's major export clients, save the United States, devalued their currencies on average between 20 and 30 percent. The Canadian dollar lost 10 percent to the American. By value, in March 1949, the greatest recipients of Canadian goods were the USA, Britain, France, Netherlands, Belgium and Italy. The last four all initiated major devaluations. Denmark, France, Ireland, Netherlands, and Norway devalued 30 percent; West Germany devalued 20 percent; Sweden had devalued by 30 percent the year before, and Austria, Greece, and Iceland made larger devaluations, while Belgium, Italy and Portugal devalued slightly less than Germany.[92] Devaluation brought a marked improvement to Britain's short-term economic prospects and Canada moved irrevocably away from the pattern of triangle trade.[93]

Rearmament partially obscures measures of this transition, but during 1950, Canadian exports to the United States increased some 34 percent, by value, while trade with the UK and sterling bloc declined from $1000 million to less than $700 million. Hasty assessments completed in the wake of this move by the Canadian Department of Finance estimated, accurately, that Canada's exports to the United Kingdom would decline by some $400,000,000, or nearly 25 percent of the previous year's total trade value.[94]

90. NA RG 2, Cabinet minutes, 20 June 1949. Cairncross, *Years of Recovery*, 208-211. On Canada's concerns, see Cairncross, 171, cf. N. Manserge, *Survey of British Commonwealth Affairs* (London, 1958), 344. Some maintain devaluation forced the use of British ships thus reducing costs, rather than increasing profits. See Pressnell, *External Economic Policy Since the War*, 447.

91. The genesis of this problem can be followed in NA RG 2, Cabinet minutes, 8 September 1948; 25 September 1948; 20 June 1949; 6 July 1949; 13 July 1949, and 19 September 1949.

92. See NA RG 49 vol. 355 file 154-1-1 pt.1, Economic News #3 (Ottawa, 1 March 1949), and Cairncross, *Years of Recovery*, 209.

93. On this 30 percent devaluation, see Arthur Marwick, *Britain in the Century of Total War* (New York, 1968), 341, and for its consequences on Newfoundland's exports, David Alexander, *The Decay of Trade* (St. John's, 1977), 41, and for a Canadian shipping firm, P.N. Davis, *The Trade Makers. Elder Dempster in West Africa 1852-1972* (London, 1973), 332-3.

94. Source: "The Budget-Appendix," House of Commons Debates- 4th Session, 21st. Parliament, 1951, 1856-1857.

Whatever long term implications this held for the Canadian economy, the British move caused the near-immediate collapse of the Canadian merchant marine. Devaluation of sterling and the subsequent collapse of shipping rates undercut further the economic viability of the Canadian merchant fleet. Before the devaluations and rate collapse, Canadian *per diem* ship operating costs compared unfavourably to British costs, averaging $810.50 versus $525.46, for a comparative cost ratio of 1.5:1. Devaluation increased this ratio to 1.8:1, thus further eroding Canadian competitiveness.[95] Compounding this problem, international freight rates collapsed. In 1948 the charter value per ton averaged $3.50-4.00; by November 1949 it stood at $1.50-2.00. For profitable operations Canadian ships required roughly $2.70 per ton.[96]

These shocks compounded the trouble created by the losses incurred during the CSU strike. During the strike, 33 Canadian shipping companies, comprising almost the entire deep-sea shipping industry, defaulted on their mortgages.[97] Devaluation and the rate collapse made their situation markedly worse. Few had returned to profitable operations. As the year closed, over one quarter of the merchant fleet was laid up, and many ships were operating at a loss. Even before the relative figures could be calculated, Clyne recommended a drastic step to preserve the merchant marine and secure cargoes.[98]

By the end of 1949, Cabinet moved to recognize that Canadian costs made the ocean merchant fleet non-competitive. With a quarter of the fleet laid-up, the Maritime Commission recommended a two-step solution. The new market situation begged some radical means of redress but, given the relative numbers and the expectation that the decline in trade to the sterling bloc would severely affect the entire Canadian economy, subsidies then appeared even more prohibitive. The imperial connection afforded Cabinet the opportunity to avoid a choice between subsidies or extinction. All Canadian merchant ships subject to the flag covenant were to be extended some form of extraordinary state protection. Three quarters of the fleet, recommended the Commission, should be allowed to transfer flag of registry from Canada to the United Kingdom. The remaining vessels were to receive special operating subsidies. The transfer proposal originated from the shipowners; however, when they proposed it in May 1949, before the devaluation crisis, the government condemned it. Members of the Maritime Commission, as well as the Deputy Minister of Labour, realized that the proposal was an unacceptable measure aimed at circumventing legitimate union operations.[99]

95. See NA Howe Papers, vol. 41 file S-9-25-1, letter Clyne to Chevrier, 24 November 1949, and D/Hist. Brand Papers, vol. VI, table "Comparative Daily Operating Costs Since Devaluation..." 30 December 1949.
96. NA Howe Papers, vol.41 file S-9-25-1, Clyne to Chevrier, 24 November 1949. On the fluctuation of freight rates over this period, see the 6th *Annual Report of the Canadian Maritime Commission* (23 June 1953), 6-7.
97. On the default, see NA RG 2 fol. 125, file D-16-3-5, Cab. doc. 974, 27 May 1949, and Memo for Mr. Claxton, 28 April 1949.
98. NA Howe Papers, vol. 41 file S-9-25-1, letter J.V. Clyne to Lionel Chevrier, 24 November 1949. Also Audette Private Papers, Clyne to Chevrier, 25 October 1949.
99. RG 27 (Department of Labour) vol. 3526 file 3-2-10-4 pt. 21, letter W.C. Duncan, President Saguenay Terminals to J.V. Clyne, 4 May 1949. Clyne argued the transfer was unnecessary, and provocative. See letter Clyne to A. McNamara, Deputy Minister of Labour, 12 May 1949.

However, following the rate collapse, Clyne resurrected the proposal.[100] Before gaining Cabinet approval, the Minister authorized informal discussions with UK representatives.[101] On 17 October, the Minister of Transport requested the Department of External Affairs to have the Canadian High Commissioner in London approach British authorities and arrange for Clyne to discuss the transfer plan. Labour tranquility, lower costs and national security were all outlined as reasons for this move in the Minister's letter to External. His request from External to the High Commissioner noted the problem caused by devaluation, and raised concerns over access to these ships in an emergency. The message closed with a note that "the matter is urgent because the Government is under pressure"[102] – industry pressure, presumably, to alleviate what had become intolerable costs in a restricted market.

A considered response came from the Permanent Secretary of the British Department of Transport, Sir Gilmour Jenkins, on 26 October. Sir Gilmour proved willing to discuss the matter but expressed concerns about re-transferring the vessels in an emergency, and about the seamen's union, the CSU, causing trouble.[103] J.V. Clyne arrived in London on 1 November to discuss these matters directly. Originally cool to the proposal, the UK Ministry of Transport responded to the threat the vessels would be sold to "flag-of-convenience." Once Clyne made clear that the Canadian government was likely to release these vessels from all sale restrictions, rather than forcing the vessels to be laid up, as British representatives suggested, the question received more considered examination by the UK Treasury and Ministry of Transport.[104]

In the subsequent negotiations occurring through November 1949, the terms of possible transfer were agreed to. Though no formalized letters of understanding were exchanged until the following year, there appeared to be agreement on the principal issues. The ships would be allowed to transfer to UK registry, but remain Canadian owned. They would operate with convertible sterling controlled through a special management fund authorized and monitored by the Exchequer. The ships would be allowed to earn both dollar and sterling freights. Profits paid in U.S. dollars would accrue to their Canadian owners, but taxes, fees, crew wages, and other "invisibles" would benefit the UK balance of payments in sterling.

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100. It could be argued he did so at the request of industry, but the evidence is not complete. Supporting the industry as initiator theory, see NA RG 46 vol. 1195, file "CSU Strike," W.C. Duncan, President Saguenay Terminals Ltd., to J.V. Clyne, subject: reconsideration of proposal to transfer flag registry, 27 September 1949.
101. Audette Private Papers, see Clyne to Chevrier, 25 October 1949; Record of Cabinet Decision, 29 November 1949; N.A. Robertson to Clyne, 1 December 1949.
102. NA RG 46 vol. 1245, file 2627.0, letter Chevrier to External Affairs, 17 October 1949, and letter A.F.W. Plumptre, to Canadian High Commissioner, 18 October 1949.
103. NA RG 46 vol. 1245 file 2627.0, letter Sir Gilmour Jenkins, to Canadian High Commissioner, 26 October 1949.
104. Clyne, *Jack of All Trades*, 134-7.

Of crucial importance to the Canadian government was British acceptance that these Canadian owned ships would count towards Canada's credit in any potential allied shipping pool during an emergency or war situation. Discussions were already under way with allies over what shipping arrangements would be necessary in time of war. Only recently had the North Atlantic Treaty Organization addressed reviving the shipping pool arrangements of the previous war. All allies were promised access to the pools, but concrete arrangements were not yet in place. Wartime experience demonstrated that even a small shipping capacity could be essential to meet needs which pool authorities might not value. All these questions Clyne personally discussed with his British counterparts.

After assurances were secured on these questions, the issue was placed before Cabinet. The proposal brought to Cabinet by the Minister of Transport recommended transferring the bulk of the merchant fleet to UK registry, while subsidizing those that remained registered in Canada. The unprecedented transfer clearly presented many potential political problems, particularly given the recent labour troubles. Practically and ideologically subsidies, too, presented a problem. The Minister of Finance, D.C. Abbott, refused to discuss the matter further, if it was meant to be justified on economic grounds. Abbott argued that, given Canada's financial situation, strategic military necessity was the only acceptable rationale for subsidies. Minister of Transport Lionel Chevrier convincingly argued that the retention of some ships on Canadian registry ensured some national capacity until NATO shipping pool arrangements were settled. He pointed out that in a crisis the pools could not come into proper operation for at least three months. The transfer of vessels to the United Kingdom aided the retention of emergency shipping capacity, but because formal agreements on pools had not yet been achieved, it was argued that maintenance of some indigenous capacity would be a prudent step. This argument overcame the resistance of the Minister of Finance; Cabinet approved the transfer and a one-year subsidy for 37 vessels.[105] Reflagging ensured for the Canadian government continued access to strategic sea lift, if necessary, without entailing the financial costs of subsidizing most of the fleet.

Issues of political sensitivity remained. The subsidy programme was seen as a partial means to allay public or union protest. Although the shipowners had secured new contracts with the SIU that promised them a 17 percent reduction in operating costs, the British government insisted that British registered ships would be expected to have British crews, or at least British pay rates. There would be little room for Hal Banks or his union. To reduce public outcry, the vessels changing registry could not do so *en masse*. Rather, each company would have to apply separately, and then could only transfer two or three ships at a time. British officials would control the pace of acceptance. Such measures had their desired effect; the only sustained opposition came from the CSU. Clyne informed the Prime Minister to ignore those protests because they came from a communist mouthpiece.[106]

105. Audette Private Papers, Clyne to Chevrier, 25 October 1949; Record of Cabinet decision, 29 November 1949; Norman Robertson, Undersecretary of State for External Affairs, to Clyne, 1 December 1949.

106. NA MG 26 L (Rt. Hon. Louis St.Laurent Papers), vol. 160., file S-50 v.5 letter J.V. Clyne to W.R. Martin, Secretary to the Prime Minister, 21 February 1950.

The lack of vocal opposition to the government's plan cannot be attributed to a successful effort to keep the issue from the public eye. On the contrary. To explain the military rationale for subsidizing so few vessels, and the decision to transfer the bulk of the fleet from the Canadian flag, the Prime Minister personally rose in the House on Friday, 9 December 1949. The Prime Minister's speech, drafted by the Maritime Commission, reprised the government's considerations. The problems of obtaining dollar cargoes and the decline in shipping rates since March 1949 resulted in Canadian operators taking substantial losses. The government could not find financial justification for maintaining a "Canadian flag fleet by artificial means." The government had no interest in maintaining an industry at the expense of the taxpayers, and, more importantly, at the expense of other export industries. The objections to such a subsidy were outlined. They would not promote a healthy, efficient industry. They constituted a steady and usually increasing drain upon public funds. In a world in which some types of ships were already in oversupply, shipping subsidies represented "a waste of the taxpayer's money." The Prime Minister continued:

> I do not propose to go into all the difficulties involved in shipping subsidies, since the government's basic objection to a policy of subsidization rests on wider grounds. The world is still suffering from the effect of two great wars. Dislocation resulting from such war had disrupted world trade to an extent that nations are taking extraordinary steps for the preservation of their economies. Our view has consistently been that it is not possible to seek a solution to our trade and currency difficulties on a purely national basis. Canada has goods to sell, but our European customers lack dollars to buy them. They cannot acquire such dollars unless we do our share of buying from them. In other words we must seek to encourage imports from countries to whom we desire to sell our goods and in this sense shipping services of other countries represent an import. We must not adopt measures which would hinder the revival of world trade and defer the achievement of balance between dollar and non-dollar trading areas. If we were to adopt a policy of subsidization of national shipping, it would be a protectionist measure disabling other countries from trading with us.[107]

Trade, not carriage was the government's primary concern. The continuation of an acceptable level of triangle trade made necessary the sacrifice of the bulk of the Canadian-flagged ocean fleet, not to a competitive market, but to one more tightly regulated than the Canadian government desired.

The Prime Minister's statement, however, did announce the small subsidy programme. The government promised a one-year shipping subsidy to maintain about 500,000 *dwt* on Canadian registry. This subsidy programme gained acceptance by Cabinet primarily because NATO shipping pool arrangements remained unsettled. But the subsidy clearly served a political purpose in allaying public criticism. Cabinet judged it prudent to maintain some ships on registry until the NATO shipping pool arrangements could be made, which the government anticipated would be completed by the

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107. D/Hist. Brand Papers, vol.II, "Extract from House of Commons Debates. Official Report – Friday, December 9th, 1949. Canadian Deep-Sea Shipping Industry – Statement of Government Policy by the Prime Minister."

end of 1950. The Maritime Commission administered this subsidy, expected to total some $3,000,000 and apply to some thirty-seven vessels.[108] The bulk of the ocean fleet subsequently transferred flag, thus depriving even the SIU of employment in most ocean trades.[109] The former Park Ships remained subject to the pre-existing flag covenant, which was now strengthened by Cabinet stipulating that the covenanted ships could not be sold off the UK registry. While that re-flagged fleet sailed to extinction over the course of the decade, it is not fair to say the Canadian oceanic merchant marine had completely collapsed: death would come one ship at a time.

The fleet's ambiguous origins, conflicting national trade policy, the absence of a *laissez-faire* international shipping market, the rise of cold-war tensions and the very peculiar problems of trade to the sterling bloc savaged efforts to maintain the fleet. In combination with labour factors, these elements, rather than some invisible hand, explain why Canadian shipowners led the way in abandoning their national flag and why the state helped them. The problems associated with higher labour and production costs, and barriers raised by currency and carriage restrictions, proved formidable obstacles which representatives of the Canadian state were very largely powerless to dispel. The death of the merchant marine can no longer simply be attributed to the unfavourable economics of labour costs and union activism. The timing and nature of the collapse were particularly Canadian.

108. Audette Private Papers, Clyne to Chevrier, 25 October 1949; record of Cabinet Decision, 29 November 1949; and, Norman Robertson to Clyne, 1 December 1949.

109. The government offered a special training programme to displaced merchant seamen: see Prime Minister's speech, 9 December 1949, and Clyne, *Jack of All Trades*, 134-7.